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East Asia

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EAST ASIA

This publication is prepared for regional specialists in the Washington community by the East Asia - Pacific Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Japan: Critical Weeks for the NPT [redacted]

The Miki government is pressing its campaign to persuade hard liners in the ruling Liberal Democratic Party to drop opposition to ratification of the Nuclear Non-Proliferation Treaty (NPT), but the odds are against affirmative Diet action before the NPT Review Conference in Geneva in May.

The Japanese leadership has met one long-standing objection to the NPT--that it would inhibit development of peaceful uses of nuclear energy by subjecting Japan to international inspections more thorough than those imposed on its West European competitors. The safeguards agreement recently concluded in Vienna between Japan and the IAEA apparently satisfied concerns on this score. Big business leaders, in particular, have now shifted to strong support for ratification.

The Issue of "Security"

NPT opponents in the ruling LDP, however, have not yet been satisifed on another major concern--that ratification, by foreclosing the nuclear weapons option, would impair the nation's longer range security interests. The hard liners seem skeptical of the durability of US defense guarantees and want assurances that Prime Minister Miki will seek to strengthen US security ties.

Concerned that time may be on the side of opponents of ratification, the Miki government is stepping up its effort to win LDP approval, while the Foreign Ministry is taking the case to the people via the media. The idea is to outmaneuver opponents who see advantage in keeping discussion of the sensitive nuclear arms issue within high party councils and behind closed doors.

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The government has also been able to prevail on former prime minister Sato, still influential among party right-wingers, to declare his support for ratification. Party Secretary General Nakasone and other important anti-NPT figures also are rethinking their positions.

In a most uncharacteristic move, the Foreign Ministry is facing the national security implications of the NPT issue head on. Meeting with a number of ruling party "hawks," ministry spokesmen are expounding on the theme that Japan's security is firmly guaranteed by the mutual security treaty with the US and, hence, that fears for Japan's future are unjustified.

The government, in fact, has considered asking the US for "reaffirmation" of the present, open-ended security commitment, and may raise the issue this summer if Prime Minister Miki is able to visit the US at that time, as he hopes to do. Tokyo is also considering a move to secure international security guarantees for all non-nuclear weapon states at the Review Conference in May.

The Drive for Ratification

The government hopes to be ready to submit the NPT to the Diet in early April for ratification before the scheduled adjournment in May. The major hurdle, however, remains attainment of the necessary consensus within the LDP. This objective may be further complicated by factional struggling. Miki's rivals are not anxious to see him strengthen his party position with a record of accomplishment on the NPT and other issues.

Even if a consensus could be reached, within the LDP, parliamentary obstacles remain. There will be a virtual hiatus in Diet activity on major issues until

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the end of April as members return to their constituencies to campaign for candidates for local elections. Furthermore, the Japanese Communists, despite decades of anti-nuclear agitation, now take the position that ratification would inevitably mean prolonged national dependence on the US. The Japan Socialist Party is considering a similar stand. While solid LDP support for ratification would easily override leftist voting strength in the Diet, leftist opposition would contribute to the confusion and delay likely in any case to attend consideration of the issue.

If the NPT cannot be submitted to the Diet for action in April, the government will probably find it difficult to generate new momentum on the issue for many months at least. Thus, ratification of the treaty by Japan could be delayed for an indefinite period in the event of failure in the next few weeks. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Local Elections in Japan

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Official campaigning began last week for Japan's quadrennial local elections, to be held April 13 and 27. Voters will be choosing 17 prefectural governors, 150 mayors, assemblymen in 44 of Japan's 47 prefectures, and thousands of city, town, and village assemblymen. The elections will have two important effects at the national level:

--For the next month or so, there will be a virtual hiatus in political activity in the Diet, as members return to their constituencies to campaign for local candidates. Little if any action can be expected on major legislative proposals and treaties, including the nuclear non-proliferation treaty.

--The election results themselves will be combed for broader implications--particularly whether the conservatives have been able to stem the gradual decline in their popular support and how well they might fare in the next Lower House election. A strong conservative showing might encourage Prime Minister Miki to call a national election sooner rather than later this year.

The Interpretive Problem

Interpreting local elections in Japan is a peculiar exercise. Despite the thousands of seats

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at stake, election assessments offered by Japanese press and political circles will probably be based on a very narrow range of contests. There is a general consensus that--as in the past--local assemblies will retain their conservative orientation.

Attention will focus on the 17 prefectural governorships plus a handful of key mayoralities. At present, conservatives hold 15 of the 17 governorships; reformists, however, hold the two with the most national prominence--Tokyo and Osaka. Conservatives are now given a chance of winning in both Tokyo and Osaka, while reformists are posing threats in three or four other prefectures. Most election assessments will center on this very small number of "real" contests.

Trends

Earlier this year, conservatives were simply hoping to minimize their losses in the coming elections. The Liberal Democratic Party had been rocked by the financial scandal surrounding Prime Minister Tanaka, his resignation, and the ensuing party crisis over the naming of his successor. A grim economic situation completed a uniformly depressing outlook for the ruling conservatives.

Within the past two months, however, more encouraging trends have developed. Prime Minister Miki's image as a clean politician has quelled public indignation over Tanaka's financial misdeeds. Inflation is being brought under control, and strains between the Communist and Socialist parties have damaged or destroyed local reformist coalitions in several important areas.

As a result, conservatives have done well in recent scattered local elections. In Aichi Prefecture, the conservative incumbent won a resounding re-election

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and carried the city of Nagoya--an indication that conservatives can still perform well in major urban areas. In Aomori Prefecture, the conservatives were able to shore up elements of rural support that had appeared to be weakening.

Outlook

Given the trends and scattered voting so far, conservatives are now more confident than they were a few months ago. But they still face a serious problem--obtaining an electoral outcome that will be widely interpreted as a "victory." Indeed, major gains are possible only in Tokyo and Osaka--a small range of opportunities, especially since the reformist incumbents are still favored in both. The vote in these two cities, however, will probably influence all election assessments:

--Conservative victories in both Tokyo and Osaka would more than offset conservative losses that could reasonably be anticipated elsewhere, and would be regarded as a "victory."

--A conservative win in either Tokyo or Osaka, combined with a strong showing elsewhere, would also be considered a victory; combined with a conservative loss of perhaps two and probably three governorships elsewhere, however, it would at best be viewed as a standoff.

--Conservative losses in both Tokyo and Osaka, combined with a loss of one or more governorships elsewhere, would be considered a defeat.

In sum, the conservatives could put on a strong showing in the assembly and mayorality contests, win as many as 14 of the 17 governorships, and still be denied a "victory" in post-election assessments. (CONFIDENTIAL)

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North Korea: Kim Il-song Urges Expanded Trade Ties with Capitalist States

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A Kim Il-song speech, broadcast by Pyongyang's domestic radio on March 4, has acknowledged with striking forthrightness that North Korea "must actively go out to the capitalist markets to purchase materials and machinery we need." Kim's speech, to a meeting of industrial activists, was the first explicit admission of the North's need to trade outside the socialist market to be publicized for the domestic audience. Although the North's trade with the West has been growing for several years, Kim's previous discussions on the need for trade ties with the West had always been confined to interviews with foreign media that were not publicized by Pyongyang.

Kim noted that trade confined to the socialist countries was no longer sufficient for the North's developing economy. He argued that foreign trade provided the means to "enhance our country's external standing and dignity" and to "develop favorable relations" with other countries. The decision to publicize Kim's speech stressing the importance of foreign trade and calling upon those in export industries to improve their work may have been prompted by the difficulties Pyongyang's foreign trade program has encountered securing foreign exchange and overcoming a reputation for inferior merchandise. One year ago, for example, in a speech to an industrial congress, Kim had touched indirectly on the foreign exchange problem, urging the production of more goods for export in order to earn "precious foreign currency."

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In his current speech, however, Kim did not raise the foreign exchange issue, concentrating instead on the need for high-quality exports in order to earn the "confidence of the international market." While products for domestic consumption must be "neat and useful," Kim noted, export goods must be of "better quality" and be "neatly" packed. As part of the program to "conduct foreign trade well" and to help justify the "confidence placed in us," Kim urged that enterprises fulfill export plans "ahead of schedule--at the beginning of each month." Lest the North's current shortage of sea transport stand in the way of expanding foreign trade ties, Kim instructed the Foreign Trade Ministry to make greater use of "chartered ships."

A major element of Kim's philosophy of nation-building, and a frequently repeated theme in North Korean media, has been the insistence on economic independence based on substantial--but not total--economic self-sufficiency. Kim's forthright admission now that the North must trade with capitalist countries, particularly in a speech publicized for his domestic audience, thus suggests a break with past dogma. There was an attempt by Kim to rationalize this ideological shift: he asserted that the need for such trade sprang from the North's economic success, and that its heavy industry was so developed that the country only imported equipment for which it had "no great need." Furthermore, Kim was careful to note that the North, aware of the "intrinsic defects" of a capitalist economy, would not become dependent on the capitalist market for raw materials. This point was reiterated on March 17 in a Korean News Agency report that asserted the North meets by itself more than 70 percent of its demand for industrial raw materials, and only relies on the socialist countries for the rest, thereby safely insulating the North from the "worldwide crisis of the capitalist economy." (CONFIDENTIAL)

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The Overseas Chinese in Thailand [redacted]

The stereotype image of the Overseas Chinese in Southeast Asia is the apolitical businessman. While this image may well apply to large numbers of Chinese in the region, it ignores the initimate relationship between business and politics that has existed for several decades in Thailand. According to a recent airgram from the US embassy in Bangkok, the Sino-Thai, as they are often referred to in Thailand, have begun to play a more open and active role in Thai politics.

Shortly after the coup of 1932 that overthrew Thailand's absolute monarchy, a method of cooperation evolved by which wealthy Chinese businessmen provided capital and sinecures on the boards of their corporations to Thai generals in exchange for political influence. Because many of the military elite were not wealthy, this relationship gave high-ranking military officers the means to expand their political sights and to adopt a lifestyle befitting their positions of influence. Former deputy prime minister and army commander Praphat, himself a Sino-Thai, owed much of his wealth and power to his relationship with the Chinese business community. Other prominent Sino-Thai, who never emphasized their Chinese backgrounds, but profited from the system include former deputy prime minister Pote Sarasin and former foreign minister Thanat Khoman. The present army commander, Krit Siwara, reportedly is on the board of directors of at least half a dozen Chinese-controlled firms. His public claims that he has severed these connections seem to have been made primarily for public relations purposes.

During the final years of the Thanom military regime, Sino-Thai businessmen began to move more

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openly into the political arena. For example, Prasit Kanchanawat, a prominent businessman-politician who enjoyed the support and protection of then army strong man Praphat, pushed hard for an increase in trade and other contacts with Peking, even though this line brought him criticism from pro-Taiwan Sino-Thai and Thai nationalists alike.

One reason why the Sino-Thai businessmen are now stepping more into the political limelight is the changing political equation since the Thanom regime's ouster. With the army now playing a reduced political role, close ties with the military no longer give the Chinese businessmen the clout they once had in government decision-making.

Thailand's general election last January was an opportunity for many politically ambitious Sino-Thai to broaden their political influence. Prasit, with strong backing from army chief General Krit, founded the Social Nationalist Party and went on to become speaker of the new lower house. Another new political grouping with a youthful, liberal image, the New Force Party, is heavily Sino-Thai in membership. In the northeast provinces, entire slates in the municipal elections held last December consisted of Chinese who made little or no effort to "don Thai feathers." In the general election in January, one of several prominent Sino-Thai winners was Bunchu Rochanasathian, executive vice president of the Bangkok Bank. Money was a key factor in his victory, and he spent lots of it to defeat Siri Siriyothin, a well-known and popular Thai politician whom many had considered a potential prime minister. Moreover, in a different political arena, many of the student activists who came into prominence during the riots of October 1973 are from Chinese families.

Backlash

There is a danger that increasing and visible political activity by the Sino-Thai may cause a

backlash among the ethnic Thai. Indeed, the seeds for this already began to sprout during the farmer and labor demonstrations of mid-1974. The grievances of these groups, at least as expressed by their more vocal supporters, were unethical Chinese business tactics: in the farmers' case, usurious credit terms as well as unreasonable profits by Chinese middlemen who pay farmers little but sell at high prices in the export markets; in the case of urban labor, oppressive working conditions and poor labor-management relations. The most dramatic evidence of this backlash surfaced during the riots in Bangkok's Chinatown in July. The riots appear to have been kindled by smoldering resentment among Chinese shopkeepers and other small businessmen over years of extortion by ethnic Thai police. Thai police, in sharp contrast to their cautious handling of ethnic Thai political and civil disturbances, resorted to the use of firearms to put down this disorder. Student activists, sensing that the city's sympathies lay with the police in this instance, made no effort to use the ensuing bloodshed in a political campaign against the police. Several Thai language newspapers openly characterized the unrest as a "Chinese" riot.

The Peking Connection

There is evidence that some of the wealthy Chinese businessmen who have close ties to the Thai elite are ardently pro-Peking, if not ardently pro-communist. One of the factors fostering such pro-Peking loyalties in a community with strong pro-Taiwan sympathies is the desire to be in on the ground floor once Thailand normalizes trade relations with China. Ironically, now that Thailand is beginning to open trade with China, such trade no longer seems as profitable as it once did. The first disappointment occurred several years ago when China

began to raise the price of its goods on world market levels. A second blow came late last year when the Thai National Assembly created a state trading corporation to manage all trade with socialist countries. This threatened to eliminate the advantage of "personal entree" that the pro-Peking Sino-Thai merchants had expected to capitalize on vis-a-vis their pro-Taiwan competitors.

The Question of Assimilation

Observers of the Thai political scene have often claimed that the local Chinese are highly assimilated into Thai society and culture and wish to become even more so. Credit for this state of affairs usually goes to the Thai policy of forbidding any foreign language education--particularly Chinese--in Thailand.

But things may be changing. Officials seeking to repress Chinese chauvinist sentiment and to promote policies of assimilation are no longer in control. Recent Thai government attempts to improve relations with China have led to a significant surge of interest in Chinese culture and society. The Chinese community in Bangkok exhibits a sometimes euphoric and sometimes chauvinistic curiosity about China. Interest in Chinese language training has increased both on university campuses and in adult night courses and "after hours" middle school training.

The circulation of Chinese papers has also increased and their contents and editorial slants have shifted significantly leftward in response to the curiosity of the local Sino-Thai about the mainland. Books and other periodicals concerning China have enjoyed a marked increase in sales and circulation. Students at both Chulalongkon and Thammasat universities have put on large and well-attended displays dealing with China.

Outlook

The former Thanom military regime dragged its feet on formal recognition of China primarily to avoid having a Chinese embassy in Bangkok. Many Thai security officials continue to fear that the presence of a Peking embassy would cause a leftward drift within the sizable Chinese community in Bangkok. While the Thai and Chinese communities have managed thus far to get along reasonably well, the Thai harbor a deep mistrust of Sino-Thai political loyalties. A decision by Bangkok to establish formal diplomatic relations with Peking could quickly bring tensions to the surface. (CONFIDENTIAL)

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Philippines: Chinese Squeeze Play

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In making preparations for eventual diplomatic relations with Peking, Manila will have to settle the status of some 150,000 local Chinese who are not Philippine citizens. President Marcos announced on March 1 that he has directed his subordinates to draft a general naturalization law that would make it easier for "qualified alien residents" to integrate into Philippine society. Marcos is concerned that if these resident Chinese are not granted some sort of legal status in the Philippines, they will become "wards" of Peking upon Manila's recognition of China. Like other Southeast Asian governments, Manila wants to minimize the opportunities for interaction between communist Chinese diplomats and local Chinese residents.

The Philippine Chinese community numbers about 500,000. Many upper class Filipinos, including President Marcos, also have some Chinese blood, the result of generations of intermarriage. In 1974, Manila launched a drive to register resident aliens as well as naturalized Filipinos. The drive was more systematic than previous efforts to enrole Chinese residents and was undertaken partly in preparation for establishing relations with Peking and partly in connection with a broader plan to issue identity cards to all Philippine residents. Philippine authorities are convinced that there are a large number of illegal Chinese residents in the country--mainly relatives of legal residents trying to circumvent restrictive immigration policies. The Chinese community, for its part, is suspicious of government registration campaigns, fearing that the resulting lists will be used to systematize shakedowns by immigration and other officials.

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In late 1973, the Marcos government finally came up with a program to resolve a long-standing issue of some 2,700 Chinese refugees--known as the "overstaying Chinese"--who had fled the mainland for the Philippines during the years 1947 to 1950. A presidential decree in September made it possible for these Chinese to get immigrant status--after paying a "gratuity" of some $2,140 each--and by February 1974 most of the "overstayers" had reportedly applied.

What to do about the remaining alien Chinese is still to be determined, but recent public statements by government officials and other spokesmen indicate that the Marcos administration is aware it must soon come up with a solution. At present alien Chinese must apply annually for new visas, a process that sometimes entails large payoffs to immigration officials. Few permanent Chinese residents have plans to leave the Philippines, but they find naturalization procedures both difficult and expensive. Obtaining Philippine citizenship involves getting some 38 different clearances and can cost over $6,000 in payments to officials along the way. Moreover, naturalization by no means conveys total equality of status. Philippine Chinese remain a legal exception to many laws that benefit or protect Malay Filipinos; Chinese can be "denaturalized" virtually at government whim. Because of close marital, cultural, and commercial ties between families of Malay and Chinese descent in the Philippines, however, the local Chinese community probably suffers less discrimination than is practiced against non-natives in many other Southeast Asian countries.

Compared with Chinese minority communities elsewhere in Southeast Asia, the Philippine Chinese represent a relatively small problem. Their legal status could be resolved quickly through a presidential decree facilitating the naturalization process. Recent official and quasi-official statements indicate that

the Marcos regime has not yet arrived at a well-conceived solution. With the domestic political scene under control and the process of establishing diplomatic relations with Peking getting under way, however, Manila can be expected to devote more serious attention to the Overseas Chinese issue. (SECRET NO FOREIGN DISSEM)

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Indonesian Financial Scandal [redacted]

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The capricious financial dealings of Pertamina, Indonesia's state oil company, have reached sufficient proportions to cause embarrassment to the government and trepidation among present and prospective creditors. News of a default on a $40-million loan from a consortium of US banks last month sent other American banking officials to Pertamina seeking assurance regarding payments of loans falling due later this year. When a French banking consortium received confirmation of the rumor, they broke off negotiations with Pertamina for a $250-million loan.

Pertamina was conceived as a high-powered government corporation that could expedite development of the country's valuable energy resources. To do this, it was given a mandate to operate outside the lethargic bureaucracy, to devise its own standards for employment and wage scales, and to borrow abroad.

Pertamina's budget last year was $2 billion, compared to the separate government budget of about $4 billion. The company has control of a huge cash and tax revenue flow, most of which is supposed to be turned over to the Ministry of Finance. These revenues stem from the profit-sharing contracts with foreign oil companies, retail sales of petroleum products for which Pertamina holds a monopoly, and other branches of its operations. Over the years Pertamina has been entrusted with a number of large projects, many related to the oil sector. This branching out into other areas is a major cause of Pertamina's current financial predicament.

Concern over Pertamina's financial position is not new. Two years ago, officials of the International Monetary Fund complained that Pertamina had

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debt and servicing commitments above the ceiling set for Indonesia. This was a surprise to the Suharto government, which was unaware of the extent of the company's borrowings. Attempts to subject Pertamina's budget to strict scrutiny failed, however, as Ibnu Sutowo, the company director, claimed that giving such power to the government would mean the end of Pertamina. President Suharto, confident of Sutowo and reluctant to press him, let the issue die without taking action.

Liquidity problems surfaced again late last year, evidenced by rumors of defaults and Sutowo's many visits to world financial capitals in search of large loans. This time the liquidity crunch was precipitated by a shortfall in projected oil earnings, cost overruns resulting from inflation, and heavy expenditures on projects--such as the Krakatau Steel Mill and Batam Island industrial park--that do not yet have long-term financing.

The culmination of all this was the refusal of small foreign banks to reschedule loans they had made the previous year, despite Pertamina officials' claim that none of the funds had been used for speculative purposes. Pertamina as a result was unable to pay $560 million of its tax bill in 1974; unpaid taxes will amount to $800 million by next month. This has affected the government's own spending plans, since 60 percent of its budget comes from oil revenues.

In January, after being apprised of the condition of the national treasury, Suharto ordered an investigation of Pertamina's finances. News of the $40-million loan default coincided with a meeting in Jakarta between Pertamina and a group of US bankers to review Pertamina's projects and financial position. Good salesmanship on Pertamina's part prevented a confrontation, and the bankers left convinced that Jakarta was serious about dealing with Pertamina's financial problems.

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This series of events appears to have pressured the Suharto government into taking a harder line with Pertamina. Suharto has assured creditors that Pertamina will meet its short-term obligations, which amount to an estimated $600 million. The Bank of Indonesia is already trying to raise funds in Europe and Japan for this purpose.

If the minister of finance has his way, total control of Pertamina's finances will rest with his ministry from now on. Pertamina director Sutowo, of course, is interested in maintaining the highest possible degree of financial independence, but he may well agree to reorganize his money managers and make financial data more public. Regardless of the outcome, it is clear that the government will at least insist on the right to review all foreign borrowing activities and to know in detail how funds are spent.

Pertamina--or something close to it--will probably survive this crisis. No government ministry has the technical or managerial skills to supplant it, and foreign investors find Sutowo and Pertamina much easier to deal with than other government departments. Jakarta's efforts to refurbish the company's image as a prospective international borrower, however, will be costly. Some of Pertamina's development projects will undoubtedly have to be stretched out, scaled down, or discontinued. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM) 25X1A

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Trade Unionism Growing in Fiji

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Fiji's burgeoning trade union movement has the potential of becoming an important political force in the South Pacific nation.

Fiji's work force has grown rapidly since independence in 1970. The tourism boom, with its demands for construction and services, has sharply increased the need for laborers. Expanding light industry also provides more employment. As a result growing numbers of people have been drawn from the villages into the monetary sector of the economy.

Some local observers estimate that the work force has nearly doubled from less than 40,000 at independence to close to 70,000 today. The growth in numbers has been matched by an increase in organization. All major industries are now unionized, as are government employees, teachers, and hotel workers. Although figures released by the unions are probably inflated, their total estimated membership is near 40,000. Labor, as it has grown and organized, has become one of the most powerful and vocal interest groups in the population of one half million.

The labor unions' new-found power has been manifested in frequent work stoppages and strikes, the large majority of which have been resolved in the unions' favor. The lack of a minimum wage has encouraged unions to make exorbitant wage demands, sometimes over 100 percent. Frustration over the wide span between the wages of expatriates and local employees doing the same work has also inclined the unions toward unrealistic demands. A dearth of professional leadership is shown in the

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frivolous nature of some demands, such as the widely publicized plea of miners for a midday "sex break" on the argument that they are too weary to fulfill their conjugal obligations at the end of a grueling workday.

There are two major labor federations. Neither, however, has effective control over its numerous affiliate unions. Further, the labor movement has been weakened by internal squabbling. One leader complains that more energy is expended on "trying to stab each other in the back" than on working together. The feuding tends to be personal, as rivals vie in using their union positions as stepping-stones toward personal advancement.

One result of the fragmentation is that the labor movement's political influence is far short of what might be expected of a group of its size. Not only has the movement's strength been diffused among rival leaders and unions, but it has been stunted by the absence of support from political parties. Fiji's two major parties are formed on roughly racial lines. Both are supported by commercial interests and so far have seen little reason to court labor.

This situation could change in time. As Fiji's workers feel and complain about the effect of worldwide economic conditions, their leaders may be nudged toward muting their personal differences. A more united front, especially one that might influence its members' votes, would command more attention from political leaders. Fiji's politicians are occasionally angered over what they see as union irresponsibility, but the lack of radicalism in the labor movement will make it less difficult for them eventually to accept and perhaps even identify with labor. The few firebrands active several years ago have been sidelined, and politicians may calculate that giving labor a political stake will work against any resurgence of radicalism.

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The labor movement's apparently calming effect on racial tensions may in time also bring it wider acceptability. The movement has been largely free of the traditional animosity that has figured prominently between Fijians and the now more numerous Indians. Labor is one of the few groupings in Fiji that is basically multiracial. One of the most beneficial legacies of the labor movement could be a change in the racial attitudes that have been a brake on the development of a sense of Fijian nationhood. (CONFIDENTIAL)

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